

Message Text

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INFO OCT-01 ISO-00 EA-09 AID-05 CIAE-00 COME-00 EB-07

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R 311710Z AUG 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1457

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY PARIS

AMEMBASSY TOKYO

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AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 04 BONN 14536

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 30)

1. BUNDESBANK DISAGREES WITH GOVERNMENT 1977 PRICE
INCREASE PROJECTION: THE BUNDESBANK MADE HEADLINES THIS
WEEK BY ITS REFUSAL TO GO ALONG WITH THE GOVERNMENT'S
PRELIMINARY ECONOMIC PROJECTIONS FOR 1977 (USED FOR
BUDGET PLANNING, ETC.). THE BUNDESBANK REPORTEDLY
OBJECTS TO A 4 - 5 PERCENT PRICE INCREASE ASSUMPTION
BY THE ECONOMICS MINISTRY, CALLING THIS A NOT AMBITIOUS
ENOUGH GOAL. PRESIDENT KLASSEN INSTEAD HAS PUBLICLY
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CALLED FOR AIMING TO KEEP THE 1977 INFLATION RATE BELOW

4 PERCENT (DETAILS WILL BE REPORTED SEPARATELY).

2. OWNER OF HERSTATT BANK ARRESTED: SEVEN PERSONS CONNECTED WITH THE BANKRUPT HERSTATT BANK, INCLUDING ITS OWNER, IWAN D. HERSTATT AND MEMBERS OF THE BANK'S MANAGEMENT, HAVE BEEN ARRESTED ON ORDER OF THE COLOGNE DISTRICT ATTORNEY. ACCORDING TO THE ATTORNEY, HERSTATT AND THE ARRESTED MEMBERS OF THE BANK'S MANAGEMENT WILL BE ACCUSED BECAUSE OF HAVING PROVIDED UNTRUE INFORMATION ABOUT THE FINANCIAL POSITION OF THE BANK; THE OTHER ARRESTED EMPLOYEES, INCLUDING THE BANK'S CHIEF FOREIGN EXCHANGE DEALER DATTEL, WILL BE ACCUSED BECAUSE OF BREACH OF TRUST AND DECEIT. DETAILS ON THE REASONS FOR THE ARREST HAVE NOT BEEN GIVEN.

3. GERMANS SEEK TO LOWER ITALIAN PANTY HOSE WITH \$2 BILLION CREDIT: ACCORDING TO THE PRESS, ECONOMICS MINISTER FRIEDERICH HAS REQUESTED THAT APEL AND KLASSEN RAISE THE ISSUE OF DUMPING ITALIAN EXPORTS OF PANTY HOSE IN CONNECTION WITH EXTENSION OF THE \$2 BILLION CREDIT. ECONMIN SOURCE TOLD EMBASSY THAT FRG BELIEVES BOOM IN PANTY HOSE EXPORTS IS DUE AT LEAST IN PART TO GOVERNMENT SUBSIDIES. PREVIOUS BILATERAL CONTACTS WITH GOI HAVE FAILED TO PRODUCE ANY RELIEF, AND EC COMMISSION HAS TAKEN LUKE-WARM STANCE (SEE BONN 13016). IN FACE OF INCREASING PRESSURE FROM DOMESTIC INDUSTRY TO TAKE ACTION QUICKLY, FRIEDERICH HAS LITTLE ALTERNATIVE, ACCORDING TO OUR SOURCE, OTHER THAN TO SEEK TO HAVE EXTENSION OF ITALIAN CREDIT LINKED TO GOI PROMISE TO RESTRAIN ITS PANTY HOSE EXPORTS. ACCORDING TO THE PRESS THE CABINET HAS ALSO AGREED TO A REQUEST OF AGRICULTURAL MINISTER ERTL THAT THE ITALIAN PRIOR DEPOSIT SCHEME BE RAISED AS PART OF THE LOAN NEGOTIATIONS.

4. MONEY SUPPLY: IN JULY, THE MONETARY EXPANSION (MEASURED BY M1, M2 AND M3) SLOWED FOLLOWING A SHARP ACCELERATION IN JUNE. ON A SEASONALLY ADJUSTED BASIS THE MONETARY AGGREGATES DEVELOPED AS FOLLOWS (CHANGES IN BILLION DM; SEASONALLY ADJUSTED):

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1ST Q. 2ND Q. JUNE JULY
(MONTHLY AVERAGES)

M1	0.3	2.7	1.0	0.5
M2	MIN. 0.1	3.1	3.9	MIN. 0.4
M3	2.4	4.5	6.1	3.5

THE BASIC FACTOR CONTRIBUTING TO THE SLOWER MONETARY

EXPANSION WAS A SEASONAL DECLINE IN BANK CREDITS GRANTED TO THE PRIVATE SECTOR. BANK CREDITS TO PUBLIC AUTHORITIES, ON THE OTHER HAND, INCREASED CONSIDERABLY IN JULY. THE INDIVIDUAL COMPONENTS AND DETERMINANTS OF THE MONEY SUPPLY FOR JULY (SEASONALLY NON-ADJUSTED, CHANGES IN BILLION OF DM) DEVELOPED AS FOLLOWS:

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TO SECSTATE WASHDC 1458

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

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	JULY	JUNE
	1976	1975 1976

I. LENDING TO DOMESTIC NON-

BANKS	7.4	3.3	12.5
FROM BUNDESBANK	O.O	4.2	MIN. O.4
FROM COMMERCIAL BANKS	7.4	MIN.O.9	12.9
TO PUBLIC SECTOR	(5.0)	(2.1)	(1.5)
TO PRIVATE SECTOR	)2.4)	(MIN.2.9)	(11.4)

II. NET EXTERNAL ASSETS OF

BANKS	MIN.O.5	O.6	1.3
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III. SAVINGS DEPOSITS (1) AND

SAVINGS BONDS	MIN. 2.0	MIN.O.1	1.2
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IV. TIME DEPOSITS (2) AND

OUTSTANDING BANK			
BONDS (3)	2.9	1.5	1.8

V. OFFICIAL ASSETS HELD AT

CENTRAL BANK	1.0	MIN.2.3	MIN. O.4
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VI. OTHER	2.8	2.1	6.8
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VII. M3 (4) EQUALS I PLUS II

MINUS III MINUS IV MINUS			
V MINUS VI)	2.2	2.7	4.4

VIII. M2 (M3 MINUS SAVINGS

DEPOSITS)	MIN. 1.3	MIN.O.9	3.9
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IX. M1 (M2 MINUS TIME

DEPOSITS)	MIN. O.9	O.1	4.7
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(1) EXCLUDING DEPOSITS WITH 3-MONTH PERIOD OF NOTICE.

(2) WITH MATURITIES OF 4 YEARS AND MORE.

(3) EXCLUDING BONDS HELD BY BANKS.

(4) CURRENCY IN CIRCULATION, SIGHT DEPOSITS, TIME
DEPOSITS WITH MATURITIES UP TO 4 YEARS AND SAVINGS
DEPOSITS WITH LEGAL PERIOD OF NOTICE.

5. CENTRAL BANK MONEY: IN JULY, THE VOLUME OF CENTRAL
BANK MONEY (SEASONALLY ADJUSTED) AMOUNTED TO DM 115.6
BILLION AS COMPARED WITH DM 114.1 BILLION IN JUNE.
CURRENCY IN CIRCULATION ROSE FROM DM 59.9 BILLION IN
JUNE TO DM 60.3 BILLION IN JULY WHILE MINIMUM RESERVE
REQUIREMENTS (BASED ON CONSTANT JANUARY 1974 RESERVE
RATIOS) ROSE BY DM 1.1 BILLION TO DM 55.3 BILLION.
FOR THE SIX MONTH PERIOD ENDING JULY 1976, CENTRAL
BANK MONEY INCREASED AT AN ANNUAL RATE OF 6.4 PERCENT
AS COMPARED WITH 5.0 PERCENT AND 5.4 PERCENT, RESPECTIVE-
LY, DURING THE SIX MONTH PERIODS ENDING JUNE 1976 AND
MAY 1976.

6. BUNDESBANK FOREIGN POSITION: IN THE PERIOD AUGUST
16-23, THE BUNDESBANK'S NET FOREIGN POSITION INCREASED
SUBSTANTIALLY BY DM 3.0 BILLION TO DM 93.0 BILLION
REFLECTING BASICALLY BUNDESBANK INTERVENTIONS WITHIN

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FUND INCREASED BY DM 2,322 MILLION AND LIQUID FOREIGN
EXCHANGE HOLDINGS BY DM 687 MILLION. GERMANY'S IMF
GOLD TRANCHE POSITION DECLINED BY DM 28 MILLION AND
FOREIGN LIABILITIES BY ABOUT DM 20 MILLION. SINCE THE
BEGINNING OF MAJOR BUNDESBANK INTERVENTIONS IN LATE
JULY THE BUNDESBANK'S FOREIGN POSITION HAS INCREASED
BY DM 3.3 BILLION.

7. BANK LIQUIDITY: IN THE PERIOD AUGUST 16-23, BANK
LIQUIDITY INCREASED BY DM 0.3 BILLION. MAJOR
FACTORS INCREASING LIQUIDITY WERE THE ABOVE-MENTIONED
INCREASE IN THE BUNDESBANK'S FOREIGN POSITION AND
DECLINES OF DM 2.7 BILLION AND DM 4.3 BILLION,
RESPECTIVELY, IN CURRENCY IN CIRCULATION AND THE BANKS'
HOLDINGS OF RESERVES AT THE BUNDESBANK. THE BASIC
FACTOR REDUCING LIQUIDITY WAS A DM 9.4 BILLION INCREASE
IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK RE-
FLECTING PAYMENTS FOR THE MID-AUGUST TAX DATE AND
BORROWINGS OF FEDERAL AND STATE GOVERNMENTS. OTHER
FACTORS, NET, REDUCED LIQUIDITY BY DM 0.3 BILLION. THE
BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE THEIR
REDISCOUNT BORROWINGS BY DM 0.5 BILLION. AT
THE SAME TIME, BANKS INCREASED THEIR LOMBARD

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FM AMEMBASSY BONN

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DEPARTMENT TREASURY

INFO AMEMBASSY BERN

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AMEMBASSY LONDON

AMEMBASSY ROME

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BORROWINGS BY DM 0.2 BILLION.

8. FEDERAL GOVERNMENT'S CENTRAL BANK ASSETS: FROM AUGUST 16 TO 23, ASSETS HELD BY THE FEDERAL GOVERNMENT AT THE BUNDESBANK INCREASED BY DM 6.2 BILLION AND TOTALLED DM 9.5 BILLION ON AUGUST 23. OVER THE SAME PERIOD, BUNDESBANK ASSETS OF THE STATE GOVERNMENTS LIKewise INCREASED, BY DM 3.6 BILLION TO DM 8.1 BILLION. THEREFORE, ON AUGUST 23 ASSETS OF FEDERAL AND STATE GOVERNMENTS TOTALLED DM 17.6 BILLION AS COMPARED WITH DM 7.8 BILLION ON AUGUST 16.

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9. MONEY MARKET: ONLY MINOR FLUCTUATIONS IN GERMAN CALL MONEY RATES DISTURBED AN OTHERWISE UNEVENTFUL WEEK IN GERMAN MONEY MARKETS. THE DECLINE IN MONEY MARKET RATES WHICH HAD BEEN EXPECTED FOLLOWING SUBSTANTIAL FOREIGN EXCHANGE INFLOWS FAILED TO MATERIALIZE. ONE REASON FOR THIS WAS THAT AS LIQUIDITY WAS INCREASED THE BANKING SYSTEM CHOOSE TO REDUCE LOMBARD BORROWING. THESE BORROWINGS HAVE AVERAGED ONLY DM 0.2 BILLION ON A DAILY BASIS THROUGH AUGUST 23 AS OPPOSED TO A DAILY AVERAGE OF DM 1.5 BILLION IN JULY. ADDITIONAL LIQUIDITY HAS BEEN ABSORBED IN AUGUST THROUGH SUBSTANTIAL GOVERNMENT BORROWING HELD IN BUNDESBANK ACCOUNTS (SEE PARAGRAPHS ON BANK LIQUIDITY AND CENTRAL BANK ASSETS). THE SHORT TERM OUTLOOK IS FOR MONEY MARKET RATES TO REMAIN AT ABOUT THE PRESENT LEVEL SINCE MID-SEPTEMBER IS ONE OF THE MAJOR TAX DATES IN GERMANY AND BANKS TEND TO

INCREASE HOLDING IN BUNDESBANK ACCOUNTS IN ANTICIPATION OF THIS. FURTHERMORE, SUBSTANTIAL BORROWINGS FROM THE REDISCOUNT FACILITY REMAIN OUTSTANDING AND THESE WILL PROBABLY BE REDUCED WITH AT LEAST A PORTION OF ANY "EXCESS" LIQUIDITY WHICH OCCURS. RATES DEVELOPED AS FOLLOWS DURING THE WEEK:

CALL MONEY ONE-MONTH THREE-MONTH

AUG 24	4.3-4.5	4.40	4.60
25	4.3-4.5	4.40	4.60
26	4.0-4.3	4.40	4.60
27	4.4-4.6	4.40	4.60
30	4.3-4.5	4.40	4.60

10. FOREIGN EXCHANGE MARKET: IN CALM TRADING, THE DOLLAR GRADUALLY RECOUPED SOME GROUND DURING THE REPORTING PERIOD, RISING FROM DM 2.5140 ON TUESDAY, AUGUST 24 TO A DM 2.5240 OPENING A WEEK LATER. FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS

SPOT DOLLARS (IN PERCENT PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

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AUG 24	2.5140	2.5140	2.5150	-0.8	-1.2
25	2.5170	2.5233	2.5280	-0.8	-1.0
26	2.5260	2.5226	2.5215	-1.0	-1.1
27	2.5200	2.5219	2.5250	-1.0	-1.1
30	2.5220	2.5232	2.5235	-1.3	-1.1
31	2.5240	2.5269	N.A.	N.A.	N.A.

11. BOND MARKET: PRICES ON THE MARKET FOR DOMESTIC BONDS REMAINED RELATIVELY STABLE DURING THE WEEK UNDER REVIEW. ON AUGUST 30, A DM 400 MILLION LOAN OF THE

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FM AMEMBASSY BONN

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DEPARTMENT TREASURY

INFO AMEMBASSY BERN

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AMEMBASSY LONDON

AMEMBASSY ROME

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AMEMBASSY TOKYO

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FEDERAL RAILWAYS WAS OFFERED (COUPON 8 1/4 PERCENT, ISSUE PRICE 99 3/4, MATURITY 8 YEARS, YIELD TO MATURITY 8.29 PERCENT). THE LOAN WAS WELL RECEIVED BY THE MARKET AND IS CURRENTLY TRADING BETWEEN BANKS AT 100.

12. ECONOMIC INDICATORS PUBLISHED THIS WEEK: THE LATEST BUSINESS SURVEY DATA OF THE IFO ECONOMIC RESEARCH INSTITUTE (COVERING JULY) SHOW NO BASIC CHANGE FROM EARLIER TRENDS. THE MARGIN OF RESPONDENTS WHO THOUGHT THAT THE CURRENT SITUATION WAS POOR OVER THOSE THAT CHARACTERIZED IT AS BEING GOOD STOOD AT 9 PERCENT IN JULY, AS IT HAD IN JUNE. AS REGARDS EXPECTATIONS FOR UNCLASSIFIED

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THE NEXT 6 MONTHS, THE NUMBER OF FIRMS EXPECTING A PICK-UP OF BUSINESS CONTINUED TO EXCEED THE PESSIMISTIC RESPONDENTS; HOWEVER, THE POSITIVE MARGIN DECLINED FURTHER, I.E., FROM 13 PERCENT IN JUNE TO 7 PERCENT IN JULY. ACCORDING TO THE NATIONAL ASSOCIATION OF THE

GERMAN MACHINERY INDUSTRY, THE DEVELOPMENT OF DOMESTIC ORDERS FOR MACHINERY DOES NOT POINT TO IMPROVED INVESTMENT PROPENSITIES. THE ASSOCIATION'S FIGURES (WHICH ARE NOT FULLY COMPARABLE TO THOSE OF THE FEDERAL STATISTICAL OFFICE) PLACE DOMESTIC ORDERS FOR MACHINERY DURING THE FIRST 7 MONTHS OF THE YEAR AT A LEVEL CONSIDERABLY BELOW THAT RECORDED IN JANUARY-JULY 1975, I.E., BY 20 PERCENT NOMINALLY AND 24 PERCENT REAL. ALSO THE NATIONAL ASSOCIATION OF BUILDING CONTRACTORS CONTINUES TO BE DISSATISFIED WITH BUSINESS TRENDS, PLACING THE VOLUME OF CONSTRUCTION DURING THE FIRST HALF OF THE YEAR AT 3 PERCENT BELOW COMPARABLE 1975 LEVELS. THE NATIONAL ASSOCIATION OF GERMAN HANDICRAFT, ON THE OTHER HAND, NOTES A WARMING UP OF THE UNDERLYING BUSINESS CLIMATE, WITH CONSUMPTION PROPENSITIES INCREASING BUT IMPULSES FROM INVESTMENT ACTIVITIES STILL NOT VERY STRONG. PRELIMINARY STATE-LEVEL CONSUMER PRICE DATA FOR AUGUST POINT TO A REACCELERATION OF LIVING COSTS.
HILLENBRAND

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